
State of California Investor Presentation

Fiscal Outlook and Financing Plans



August 2003



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The information herein is preliminary and subject to change without notice prior to any bond offering. Bonds are to be offered or sold only through an Official Statement and neither this presentation, nor any information printed herein constitutes an offer to sell or the solicitation of an offer to buy bonds. Potential investors should read the Preliminary Official Statement, when published, in its entirety.



Introduction

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Overview

2003-04 Budget employs a combination of one-time and on-going solutions to address the \$38.2 billion budget gap and increase reserve

(Dollars in Millions)	
Description	Amount
VLF Backfill Suspension	\$4,184.0
Other Cuts/Savings	\$13,405.6
Total Cuts/Savings	\$17,589.6
Federal Fiscal Relief	\$2,202.0
Other Fund Shifts	\$2,155.0
Total Fund Shifts	\$4,357.0
Tobacco Securitization Proceeds	\$2,000.0
Other Revenues	\$2,466.3
Total Other Revenues	\$4,466.3
Pension Obligation Bonds	\$1,880.7
Other Internal Loans/Borrowing	\$445.5
Total Internal Loans/Borrowing	\$2,326.2
Fiscal Recovery Bonds	\$10,675.4
Total	\$39,414.5 *

*Note: Numbers may not add due to rounding. *General Fund reserve increased by \$1.7 billion since May Revision.*



Overview

- Expenditures for 2003-04 are projected at \$71.1 billion, approximately \$7 billion less than the revised 2002-03 fiscal year expenditures
- Moderate 2003-04 revenue estimates are \$73.4 billion, approximately \$2.5 billion higher than the 2002-03 fiscal year, primarily due to the Enhanced Tobacco Securitization Bond sale (\$2.0 billion)
- The Budget estimates a reserve of \$2.216 billion at the end of fiscal year 2003-04
- As projected in the May Revision and by the Legislative Analyst's Office (LAO), next year's budget gap is approximately \$7.9 billion (2004-05)



Overview

2003-04 Budget solutions include \$14.6 billion in bonds and modest cash flow borrowing

	Proceeds (\$ billions)	Comments
Budget Solutions:		
Pension Obligation Bonds (POB)	\$1.9	POB validation action answered by Howard Jarvis Taxpayer Association; trial date September 17, 2003.
Enhanced Tobacco Securitization Bonds	2.0	Golden State Tobacco Securitization Corporation met and approved sale on August 15, 2003. Preparing for rating agency meetings and marketing in September. Pricing and closing in October.
Fiscal Recovery Bonds	<u>10.7</u>	Waiting for the new authority to become effective on October 30.
Total Bonds	\$14.6	
Cash Flow Borrowing:		
Revenue Anticipation Notes (RANs)	<u>\$3.0</u>	Planned sale and closing in September 2003.
Total Bonds and Notes	<u>\$17.6</u>	



Overview

Pension Obligation Bonds

- Authorized in May by, Chapter 11, Statutes of 2003 (SB 29), as the 2003–04 California Pension Obligation Financing Act
- Bonds are issued to pay unpaid balance of State's obligation to CalPERS for fiscal year 2003-04
- Net proceeds of \$1.35 billion if closed by January 2, 2004, for the second payment to CalPERS
- Taxable, five-year final maturity mandated by law
- POBs paid pursuant to a continuous appropriation from General Fund
- A challenge to the validation action by the Howard Jarvis Taxpayer Association (HJTA) was heard earlier this month with a trial date set for September 17, 2003, or, if discovery cannot be completed in time for that day, October 1, 2003



Overview

Enhanced Tobacco Securitization Bonds

- Chapter 225, Statutes of 2003 (AB 1752), authorizes a covenant regarding state annual appropriation mechanism to enhance security for the bonds
- The State intends to issue approximately \$2.3 billion* of Tobacco Settlement Asset-Backed Bonds, Series 2003B through the Golden State Tobacco Securitization Corporation (GSTSC)
- Pricing and closing scheduled for October
- Tax-exempt (as with the prior issue)
- Maximum 2043 nominal maturity, anticipated repayment by 2022

****Par amount of bonds is preliminary, subject to change. Net proceeds to State estimated at \$2.0 billion.***



Overview

Fiscal Recovery Bonds

- Chapter 13, Statutes of 2003 First Extraordinary Session (ABX1 7), authorizes the creation of the California Fiscal Recovery Financing Authority to issue bonds to eliminate the accumulated budget deficit as of June 30, 2003
- A temporary one-half cent state sales tax begins July 1, 2004 and revenues from this tax will be deposited in a newly created Fiscal Recovery Fund (monies in this Fund are not included in the Proposition 98 calculation)
- Legislation was drafted by the Attorney General's Office and bond counsel to support the legal theory that these Bonds are not "debt" for purposes of Article XVI of the state Constitution:
 - Exception Theory: An appropriation of existing revenue to pay a current expense is not "debt" for purposes of Article XVI of the state Constitution
 - Debt service payments on the Fiscal Recovery Bonds are subject to future annual appropriations of sales tax revenues for that purpose
- Validation is the only way to bring a legal challenge against the Bonds. The statute also provides for an accelerated appeal process for any validation procedure (15 days, directly to the State Supreme Court)
- It is anticipated that the State will issue the bonds during the 2003-04 fiscal year



Overview

Revenue Anticipation Notes

- A \$3 billion RANs will offset potential cash low-points while retaining a \$2.5 billion “cushion,” as will be discussed in greater detail by the Controller’s Office
- The cash flow is based on a limited number of assumptions:
 - Moderate assumptions for revenue and expenditures
 - Enhanced Tobacco Securitization Bonds in October 2003
 - Pension Obligation Bonds validation in or after October 2003, sale by January 2, 2004
 - Timely issuance of Fiscal Recovery Bonds
- The State is pursuing credit enhancement and targeting a variety of buyers, in addition to the traditional base of money market funds and retail investors
- Targeted closing in late September 2003 allows for suitable mix of options to be developed



Overview

RANs Sizing and Borrowable Resources

- The State Controller has reviewed the Department of Finance cash flows and independently determined that \$3.0 billion is sufficient to meet California's obligations
- The 2003-04 Budget cash flow projects cash and unused borrowable resources of \$6.845 billion after conservative adjustments and after RAWs and RANs repayment in June 2004
- The State Controller will monitor cash usage with the Department of Finance and the State Treasurer's Office to ensure that California can timely meet its obligations



2003-04 Budget

- Essentially the same as the May Revision Work Out Plan
- The Budget provided significant gains since the May Revision:
 - Federal Fiscal Relief—\$2.2 billion (over two fiscal years)
 - Enhanced Tobacco Securitization Bonds—\$2.0 billion
 - Use of Legislative Analyst's Office (LAO) higher major revenue assumptions—\$756 million (over two fiscal years) (July actual exceeded LAO's projection)



2003-04 Budget: Structural Deficit Elimination

Two-thirds of the 2004-05 structural deficit has been eliminated

Structural Deficit

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Was	\$14.1 billion	\$24.1 billion	\$25 to \$30 billion
Now	Zero deficit after financing	\$2.2 billion positive reserve	\$7.9 billion remaining gap (per LAO)

Source: Department of Finance



2003-04 Budget

2003-04 General Fund Budget Summary (Dollars in Millions)

	<u>2002-03</u>	<u>2003-04</u>	<u>LAO 2004-05</u>
Prior Year Balance	-\$1,983	\$1,402	
Revenues and Transfers	\$70,852	\$73,353	
Fiscal Recovery Bonds	<u>\$10,675</u>	<u>-</u>	
Total Resources Available	\$79,544	\$74,755	
Expenditures	<u>\$78,142</u>	<u>\$71,137</u>	
Fund Balance	\$1,402	\$3,618	
Budget Reserves			
Reserve for Liquidation of Encumbrances	\$1,402	\$1,402	
Special Fund for Economic Uncertainties	\$0	\$2,216	
2004-05 Funding Gap			\$7,900



2003-04 Budget

Budget Gap closed with a variety of measures, almost 45 percent with cuts and savings. Solutions are summarized in the following table:

Solution	May Revision	Percentage of Solution May Revision	Budget Act	Percentage of Solution Budget Act
Cuts/Savings	\$18,875.4	49.4%	\$17,589.6	44.6%
Realignments	1,732.4	4.5%		
Fund Shifts	2,076.3	5.5%	4,357.0	11.1%
Other Revenues (includes transfers)	1,912.6	5.0%	4,466.3	11.3%
Loans/Borrowing	2,901.5	7.6%	2,326.2	5.9%
Fiscal Recovery Bonds	10,700.0	28.0%	10,675.4	27.1%
Totals	\$38,198.2	100.0%	\$39,414.5 *	100.0%

Note: Numbers may not add due to rounding.

**General Fund reserve increased by \$1.7 billion since May Revision.*



2003-04 Budget

Major Cash Flow Assumptions:

- \$10.7 billion Fiscal Recovery Bond proceeds, half in each month February and April 2004
- An estimated \$3.0 billion of RANs will be closed in late September 2003
- \$2.0 billion enhanced Tobacco Securitization Bonds will be closed in October 2003
- Pension Obligation Bonds will be issued to achieve the savings starting January 2004
- Use of LAO revenue assumptions (July actual exceeded even LAO's higher projection by \$171 million)
- Federal flexible grants will be drawn down in September and October (\$2.0 billion)
- Indian Gaming revenues (\$680 million) will be received in the last quarter of the fiscal year
- Provided two more layers and demonstrated flexibility among combinations of financial instruments. Cash flow analyses were stressed for some of the riskier combinations and continued to end the fiscal year with a positive balance



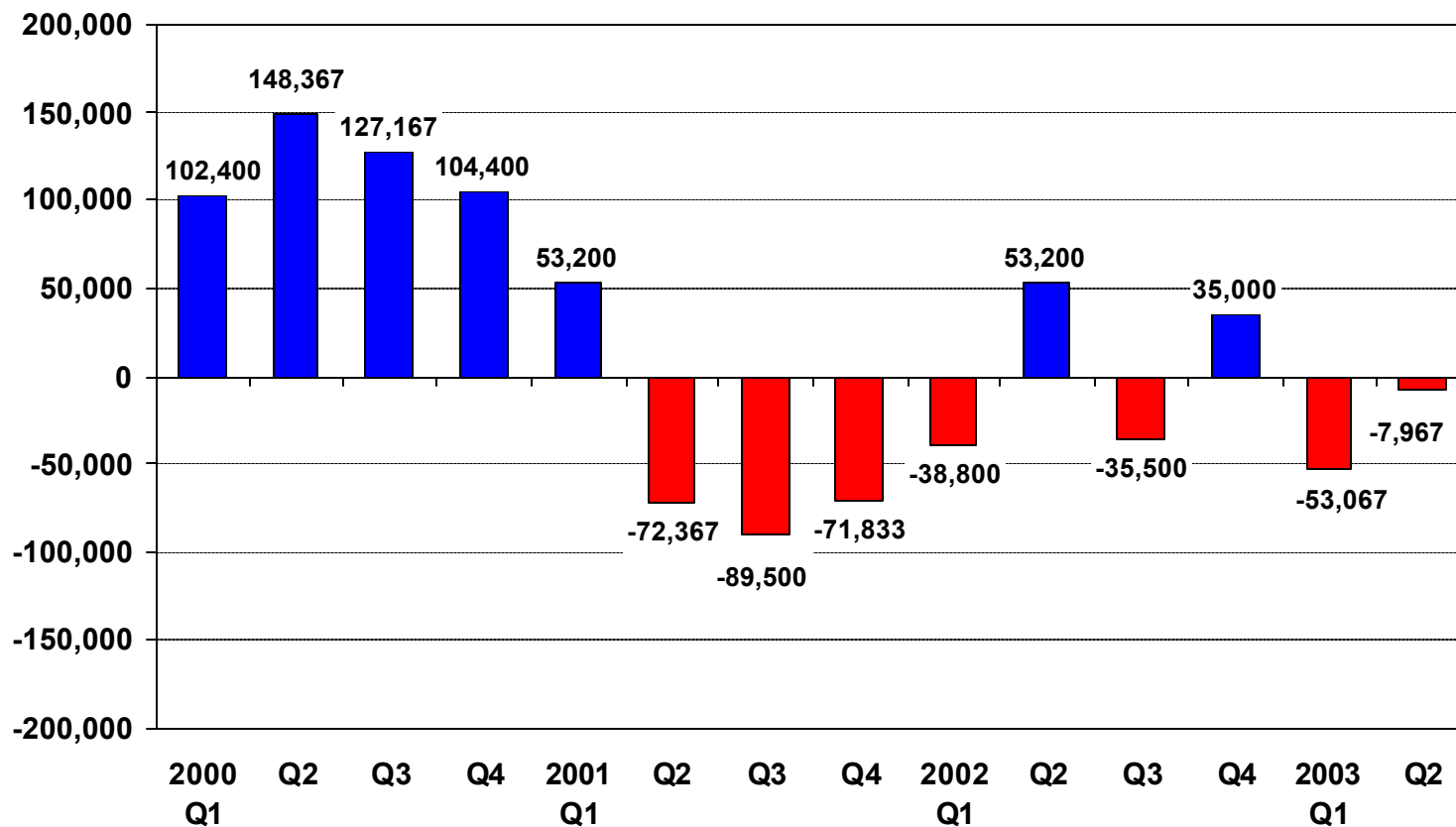
Economic Outlook

- California's economy continues to grow slowly
- Labor markets remain weak
- High-tech sectors are, at best, stabilizing
- Some encouraging signs:
 - Five consecutive (small) increases in total state personal income
 - Personal income tax withholding growing more strongly
 - Sales tax revenues slightly ahead of last year
 - Residential construction is up considerably over a year ago
- State economy appears to be tracking the national economy



Economic Outlook

California Nonfarm Payroll Employment Quarterly Gains and Losses

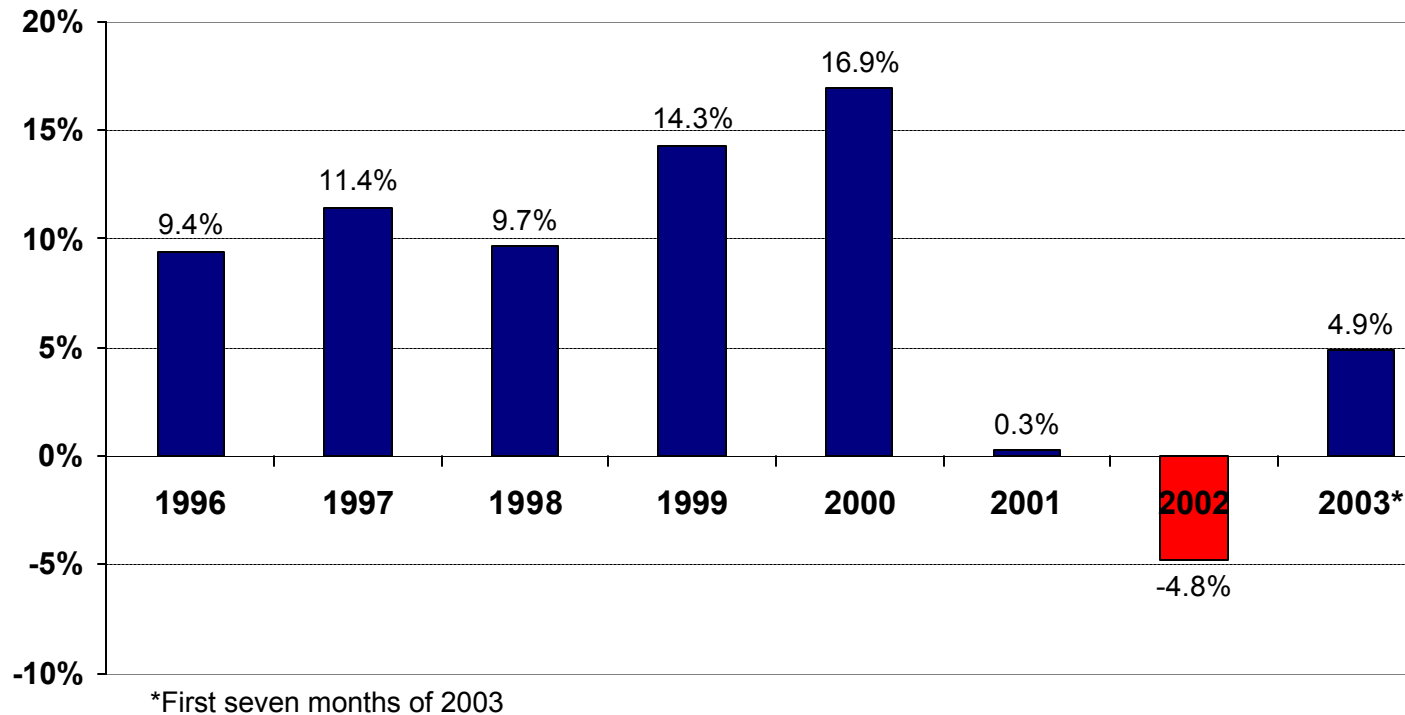


Source: Department of Finance



Economic Outlook

California Personal Income Tax Withholding Annual Growth



Source: Department of Finance



Economic Outlook

Economic Forecast Comparisons

California Nonfarm Employment	2002	2003	2004
May Revision, Apr. 2003	-0.7	0.6	2.1
LAO, May 2003	-0.6	0.8	2.3
UCLA, June 2003	-0.9	0.4	1.8
Western Blue Chip, July 2003	-0.9	0.5	1.7

California Personal Income

May Revision, Apr. 2003	0.9	3.1	4.9
LAO, May 2003	1.0	3.5	5.5
UCLA, June 2003	0.9	2.5	4.3
Western Blue Chip, July 2003	2.5	3.2	4.4

California New Housing Units (thousands)

May Revision, Apr. 2003	166	179	174
LAO, May 2003	164	182	181
UCLA, June 2003	166	201	198
Western Blue Chip, July 2003	168	184	187

Source: Department of Finance



Conclusion

- 2003-04 Budget is first step in addressing a multi-year budget problem
- Administration prudently developing future budgets and economic forecasts
- State projects sufficient cash flow coverage for all short-term borrowings
- Combination of Fiscal Recovery Bonds, Pension Obligation Bonds, and Enhanced Tobacco Securitization Bonds enable the State to craft a reasonable multi-year solution to the State's fiscal recovery
- Repayment of RANs is assured even under stressful scenarios
- State remains focused on the goal of reducing reliance on sizable short-term external borrowing



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2003-04 Sales¹

Proposed Sale	Amount	Sale Date
Revenue Anticipation Notes	\$3 billion	September 2003
Enhanced Tobacco Securitization Bonds	\$2.3 billion	October 2003
Pension Obligation Bonds	\$2 billion	2003-04
General Obligation Bonds	\$5.2 billion	2003-04
State Public Works Board: Various Projects	\$375 million	Fall 2003
Fiscal Recovery Bonds	\$10.7 billion	February/April 2004

¹Preliminary, subject to change. The ultimate sale dates can be affected by legal, market and other factors.

CASHFLOW STATEMENTS
ESTIMATED 2003-04 FISCAL YEAR CASHFLOW
GENERAL FUND

(Dollars in Millions)

2003-04 FISCAL CASHFLOW	JUL (actual)	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
BEGINNING CASH BALANCE	\$438	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,582	\$0	\$7,867	\$8,714	\$438
RECEIPTS:													
Alcoholic Beverage Excise Tax	\$32	\$24	\$25	\$25	\$25	\$25	\$27	\$19	\$20	\$23	\$24	\$19	\$288
Corporation Tax	252	140	1,253	297	-60	886	57	156	1,176	1,238	224	1,416	7,035
Cigarette Tax	10	10	10	10	10	10	9	8	9	9	9	10	114
Inheritance, Gift and Estate Taxes	60	71	71	47	47	47	47	47	48	47	47	59	638
Insurance Tax	18	20	418	13	16	419	11	15	241	493	15	389	2,068
Personal Income Tax	2,326	2,024	3,399	2,412	1,852	3,792	5,236	1,338	1,012	5,599	1,393	3,263	33,646
Retail Sales and Use Tax	899	2,768	1,771	873	2,993	1,869	945	3,227	1,688	720	3,260	2,396	23,409
Income from Pooled Money Investments	11	18	16	17	22	19	16	18	21	16	14	30	218
Transfer from Special Fund for Economic Uncertainties	0	0	0	0	0	0	308	0	0	0	0	0	308
Fiscal Recovery Bond Proceeds	0	0	0	0	0	0	0	5,338	0	5,338	0	0	10,675
Other	123	78	235	2,461	285	154	636	213	100	654	464	693	6,096
TOTAL, Receipts	\$3,731	\$5,153	\$7,198	\$6,155	\$5,190	\$7,221	\$7,292	\$10,379	\$4,315	\$14,137	\$5,450	\$8,275	\$84,495
DISBURSEMENTS:													
State Operations:													
University of California	\$300	\$215	\$233	\$284	\$257	\$262	\$242	\$276	\$307	\$329	\$179	\$11	\$2,895
Debt Service	11	216	205	238	197	119	-2	227	174	242	198	127	1,952
Other State Operations	1,332	1,090	1,279	1,342	1,104	1,002	835	851	955	899	913	871	12,473
Social Services	863	951	1,085	958	566	612	785	658	646	605	40	437	8,206
Medi-Cal Assistance	1,143	1,233	926	1,000	779	954	917	731	949	984	945	791	11,352
Other Health and Human Services	-4	35	57	42	22	41	19	58	24	60	37	73	464
Schools	3,284	3,252	2,877	2,419	1,909	2,322	3,410	3,646	2,596	2,430	2,035	1,017	31,197
Teachers' Retirement	172	0	0	113	0	0	113	0	0	113	0	-1	510
Other	1,016	1,026	76	242	598	426	452	275	424	430	256	599	5,820
TOTAL, Disbursements	\$8,117	\$8,018	\$6,738	\$6,638	\$5,432	\$5,738	\$6,771	\$6,722	\$6,075	\$6,092	\$4,603	\$3,924	\$74,869
EXCESS RECEIPTS/(DEFICIT)	-\$4,386	-\$2,865	\$460	-\$483	-\$243	\$1,483	\$522	\$3,657	-\$1,760	\$8,045	\$847	\$4,351	\$9,626
NET TEMPORARY LOANS:													
Special Fund for Economic Uncertainties	\$2,525	\$0	\$0	\$0	\$0	\$0	-\$449	-\$2,075	\$178	-\$178	\$0	\$901	\$901
Other Internal Sources	1,424	2,865	-3,460	483	243	-1,483	-72	0	0	0	0	0	0
2003 Revenue Anticipation Warrants	0	0	0	0	0	0	0	0	0	0	0	-10,965	-10,965
Revenue Anticipation Notes	0	0	3,000	0	0	0	0	0	0	0	0	-3,000	0
TOTAL, Net Temporary Loans	\$3,949	\$2,865	-\$460	\$483	\$243	-\$1,483	-\$521	-\$2,075	\$178	-\$178	\$0	-\$13,064	-\$10,064
ENDING CASH BALANCE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,582	\$0	\$7,867	\$8,714	\$0	\$0
AVAILABLE/BORROWABLE RESOURCES:													
Special Fund for Economic Uncertainties	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216	\$2,216
Other Internal Sources	8,125	7,652	7,608	7,112	7,407	7,091	6,865	7,092	6,964	6,598	7,468	6,532	6,532
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
Revenue Anticipation Notes	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Available/Borrowable Resources	\$21,614	\$21,141	\$24,098	\$23,602	\$23,897	\$23,581	\$23,046	\$23,273	\$23,145	\$22,779	\$23,649	\$8,748	\$8,748
CUMULATIVE LOAN BALANCES:													
Special Fund for Economic Uncertainties	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,525	\$2,075	\$0	\$178	\$0	\$0	\$901	\$901
Other Internal Sources	1,424	4,289	829	1,312	1,555	72	0	0	0	0	0	0	0
2003 Revenue Anticipation Warrants	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	0	0
Revenue Anticipation Notes	0	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	0	0
TOTAL, Cumulative Loan Balances	\$14,913	\$17,778	\$17,319	\$17,802	\$18,045	\$16,562	\$16,040	\$13,965	\$14,143	\$13,965	\$13,965	\$901	\$901
UNUSED BORROWABLE RESOURCES	\$6,701	\$3,363	\$6,779	\$5,800	\$5,852	\$7,019	\$7,006	\$9,308	\$9,002	\$8,814	\$9,684	\$7,847	\$7,847
CUSHION (cash and unused borrowable resources)	\$6,701	\$3,363	\$6,779	\$5,800	\$5,852	\$7,019	\$7,006	\$10,890	\$9,002	\$16,681	\$18,398	\$7,847	\$7,847
Conservative Assumptions ^{1/}	\$0	-\$7	-\$15	-\$22	-\$30	-\$37	-\$45	-\$52	-\$60	-\$294	-\$528	-\$1,002	-\$1,002
ADJUSTED CUSHION	\$6,701	\$3,356	\$6,764	\$5,778	\$5,822	\$6,982	\$6,961	\$10,838	\$8,942	\$16,387	\$17,870	\$6,845	\$6,845

Note: Numbers may not add due to rounding.

^{1/} Reflects the cumulative effect of several issues. While these cash flow adjustments would not normally be made, the State believes it is critical to be more conservative in this presentation due to the number and size of debt issuances proposed for 2003-04.